



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

December 20, 2013

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **HOLY FAMILY SERVICES ADOPTION AND FOSTER CARE AGENCY -
A FOSTER FAMILY AGENCY CONTRACT PROVIDER - FISCAL
REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Holy Family Services Adoption and Foster Care Agency (HFS or Agency) from July 1, 2010 through June 30, 2011. DCFS contracts with HFS to provide Foster Family Agency (FFA) services to recruit, certify, train, and support foster family homes. HFS' administrative office is located in the First Supervisorial District.

At the time of our review, HFS had 24 children placed by Los Angeles County in six certified foster homes. DCFS paid HFS between \$1,430 and \$1,679 per child per month, for a total of \$124,042. HFS paid \$49,517 (40%) directly to the foster parents, which meets the State's minimum requirement of 40%.

Summary of Findings

We identified \$22,548 in total questioned costs, which included \$10,274 in unallowable penalties, interest, and attorney retainer fees, and \$12,274 in unsupported or inadequately supported expenditures.

After our review, HFS indicated that they had contributed unrestricted donations to the FFA Program which exceeded the questioned costs identified in this report, and that the donations should be used to offset the questioned costs.

While it appears that HFS received approximately \$65,000 in unrestricted cash donations, we could not verify whether the donations were used on the County Program since the County contract does not require HFS to separately track donated funds used on the County Program. Since the unrestricted donated funds exceeds the questioned costs, the County cannot recover the \$22,548 in questioned costs identified in this report. DCFS should work with County Counsel to amend their FFA contracts to include provisions requiring agencies to track donated funds used on the County Program.

We also noted the following areas where HFS did not comply with their County contract. Specifically, HFS needs to:

- Develop a cost allocation plan.
- Strengthen its internal controls over accounting and disbursement procedures, payroll and personnel records, bank reconciliations, and fixed assets.
- Submit Semi-Annual Expenditure Reports to DCFS as required by the FFA contract.

In addition, DCFS and HFS need to work together to resolve some potential overpayments related to the number of days children were placed in HFS' care. Details of our findings and recommendations are discussed in Attachment I.

Review of Report

We discussed our report with HFS management and DCFS on August 15, 2013. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates general agreement with our findings and recommendations. DCFS will work with HFS management to ensure the Agency takes action to address the recommendations in this report.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report is being forwarded to DCFS in order that it might take further action, as it deems appropriate, based on the report's contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

We thank HFS management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:AA:sgd

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, DCFS
Mark J. Saladino, Treasurer and Tax Collector
Julie Brown, Executive Director, Holy Family Services
Board of Directors, Holy Family Services
B. Ray Thomas, Manager, Program/Provisional Unit, CDSS
Fanita Polk-Reaves, Manager, Audits Policy and Support Unit, CDSS
Commission for Children and Families
Public Information Office
Audit Committee

**HOLY FAMILY SERVICES ADOPTION AND FOSTER CARE AGENCY
FOSTER FAMILY AGENCY CONTRACT PROVIDER
FISCAL YEAR 2010-11**

REVIEW OF EXPENDITURES/REVENUES

We identified \$22,548 in total questioned costs, which included \$10,274 in unallowable expenditures, and \$12,274 in unsupported or inadequately supported expenditures. In addition, the Department of Children and Family Services (DCFS) and Holy Family Services Adoption and Foster Care Agency (HFS or Agency) need to work together to resolve some potential overpayments related to the number of days children were placed in HFS' care. Details of these overpayments and the results of our review are discussed below.

Applicable Regulations and Guidelines

HFS is required to operate its Foster Family Agency (FFA) in accordance with the following federal, State, and County regulations and guidelines:

- FFA Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

We identified \$10,274 in unallowable expenditures:

- \$5,058 in late fees, penalties, and interest.
- \$2,560 in Non-Sufficient Fund (NSF) and overdraft fees.
- \$1,500 in attorney retainer fees.
- \$1,156 in payroll tax penalties and interest paid to the California Employment Development Department (EDD).

Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable expenditures. In addition, CDSS-MPP Section 11-402.825 indicates that legal retainer fees are unallowable.

Unsupported Expenditures

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, cancelled checks, or other documentation. Unsupported expenditures will be disallowed upon audit.

We identified \$12,274 in expenditures that were either unsupported or inadequately supported. Specifically:

- \$8,465 in payments the former Executive Director (ED) prepared and approved to herself for meals, supplies, trips, and mileage, without documentation that these expenses benefitted the FFA Program.
- \$3,809 in unsupported purchases and credit card payments. HFS provided credit card statements and cancelled checks, but no receipts, or the receipts provided were inadequate to substantiate that these expenses were FFA Program related.

As discussed in the "Cost Allocation" section of this report below, HFS did not have a cost allocation plan to allocate costs among its programs and funding sources. During our review period, HFS operated two other programs in addition to the FFA Program, and also received funding for its FFA Program from two other counties. Since HFS did not have a cost allocation plan, we were unable to determine if the entire \$22,548 (\$10,274 + \$12,274) in questioned costs was associated with our Program, or with the other programs and counties.

After our review, HFS indicated that they had contributed unrestricted donations to the FFA Program which exceeded the questioned costs identified in this report, and that the donations should be used to offset the questioned costs. While it appears that HFS received approximately \$65,000 in unrestricted cash donations, we could not verify whether the donations were used on the County Program since the County contract does not require HFS to separately track donated funds used on the County Program. Since the unrestricted donated funds exceeds the questioned costs, the County cannot recover the \$22,548 in questioned costs identified in this report. DCFS should work with County Counsel to amend their FFA contracts to include provisions requiring agencies to track donated funds used on the County Program.

Recommendations

1. **Department of Children and Family Services management work with County Counsel to amend the Foster Family Agency contract to include provisions that require agencies to track donated funds used on the County Program.**

Holy Family Services Adoption and Foster Care Agency management:

2. **Ensure that foster care funds are used for allowable expenditures.**

3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.**

Potential DCFS Overpayments

DCFS' records show some potential overpayments made to HFS related to the number of days children were placed in HFS' care. DCFS and the Agency should work together to resolve the potential overpayments, and DCFS should collect any verified overpayment amounts. HFS management should also ensure that any future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.

Recommendations

4. **Department of Children and Family Services management work with Holy Family Services Adoption and Foster Care Agency to resolve and collect any verified overpayments.**
5. **Holy Family Services Adoption and Foster Care Agency management ensure that future payment discrepancies are immediately reported to the Department of Children and Family Services, and overpayments are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that HFS management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Cost Allocation

A-C Handbook Section C.2.0 requires agencies to allocate expenditures that benefit multiple programs or funding sources on an equitable basis. During our review period, HFS operated a Bridge Builder, Adoptions, and FFA programs. In addition, HFS received funding from Los Angeles, Riverside, and Orange counties for its FFA Program. However, the Agency did not prepare or submit to DCFS a plan to allocate expenses to each program or funding source on an equitable basis when applicable, as required.

Recommendation

6. **Holy Family Services Adoption and Foster Care Agency management prepare and submit to the Department of Children and Family Services a cost allocation plan to allocate expenditures that benefit multiple programs and funding sources on an equitable basis.**

Accounting and Disbursement Controls

A-C Handbook Section B.2.1 requires all supporting documentation for purchases be referenced to check numbers, and marked "paid" or otherwise cancelled to prevent reuse or duplicate payments. A-C Handbook Section A.2.5 requires an agency to consistently post transactions that are of a similar nature to the same account. In addition, proper disbursement procedures require someone independent of the transaction, and at a higher level, to verify the appropriateness of the expense.

We noted the following weaknesses in the Agency's accounting and disbursement procedures:

- For 34 (37%) of the 92 expenditures reviewed, the supporting documentation was not referenced to check numbers, and was not marked "paid" or otherwise cancelled.
- Five (5%) of the expenditure items sampled were not properly classified on the general ledger. For example, one payment was classified as "office supplies", when the invoice indicated it was a rental charge for a storage unit.
- The former ED approved her own mileage and expense reports. The ED's mileage and expense reports should be approved by a Board member.

Recommendations**Holy Family Services Adoption and Foster Care Agency management:**

- 7. Ensure all expenditure supporting documents are referenced to check numbers, and marked "paid" to prevent duplicate payments.**
- 8. Properly and consistently classify expenditures on the general ledger.**
- 9. Ensure that disbursements are verified by someone independent of the transaction, and at a higher level than the payee.**

Payroll and Personnel Controls

A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and signed by the employee and supervisor to certify the accuracy of the reported time. In addition, CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all Program expenditures, including employee salary rates. We reviewed 12 employee personnel and payroll records and noted the following:

- Two (17%) timecards were not prepared timely. The timecards were prepared over two months after the pay period.

- The former ED approved her own timecard. The ED's timecard should be approved by a Board member.

Recommendation

- 10. Holy Family Services Adoption and Foster Care Agency management ensure timecards are prepared timely and are appropriately approved.**

Bank Reconciliations

A-C Handbook Section B.1.4 states that bank reconciliations should be prepared within 30 days of the bank statement date, and reviewed by management for appropriateness and accuracy. Both the preparer and reviewer should sign and date the bank reconciliations. We reviewed 12 Agency bank reconciliations and noted that none of them were signed or dated by the preparer or reviewer.

Recommendation

- 11. Holy Family Services Adoption and Foster Care Agency management ensure bank reconciliations are prepared within 30 days of the bank statement date, and that the reconciliations are signed and dated by the preparer and reviewer.**

Fixed Assets

A-C Handbook Section B.4.2 requires agencies to tag all fixed assets, and keep a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost, and source(s) of funding used to purchase the asset. In addition, agencies should inventory fixed assets at least annually, to ensure that all fixed assets are accounted for and maintained in proper working order.

The Agency's fixed asset listing does not include a detailed item description, serial number, or source(s) of funding. In addition, the Agency did not inventory fixed assets annually, as required.

Recommendations

Holy Family Services Adoption and Foster Care Agency management:

- 12. Keep a fixed asset listing that includes detailed item descriptions, serial numbers, and the source(s) of funding for each asset.**
- 13. Inventory fixed assets at least annually to ensure that they are accounted for and maintained in proper working order.**

Semi-Annual Expenditure Reports

Section 17.2 of the FFA Contract requires agencies to prepare and submit Semi-Annual Expenditure Reports (SAER) to DCFS within 60 days after the end of each semi-annual reporting period. HFS has not prepared and submitted SAERs to DCFS since 2006. DCFS was not aware that the SAERs for the Agency were delinquent. HFS must prepare and submit the missing SAERs, as required by the FFA Contract. In addition, DCFS needs to develop a tracking system to ensure foster care providers submit required SAERs timely, and hold agencies accountable for failing to comply with the FFA Contract.

Recommendations

- 14. Holy Family Services Adoption and Foster Care Agency management prepare and submit missing Semi-Annual Expenditure Reports to the Department of Children and Family Services immediately, and ensure that future Semi-Annual Expenditure Reports are submitted to the Department of Children and Family Services as required by the Foster Family Agency Contract.**
- 15. Department of Children and Family Services management develop a tracking system to ensure foster care providers prepare and submit the Semi-Annual Expenditure Reports timely, and hold agencies accountable for failing to comply.**



**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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Third District
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Fourth District
MICHAEL D. ANTONOVICH
Fifth District

November 22, 2013

Julie Brown, Executive Director
Holy Family Services
840 Echo Park Ave.
Los Angeles, CA 90026

Dear Ms. Brown:

**AUDITOR-CONTROLLER'S FISCAL REVIEW OF HOLY FAMILY SERVICES
ADOPTION AND FOSTER CARE AGENCY - A FOSTER FAMILY AGENCY
CONTRACT PROVIDER**

We have reviewed your fiscal corrective action plan (FCAP) received on November 18, 2013 in response to the Auditor-Controller's final draft fiscal audit. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-3209.

Sincerely,

A handwritten signature in blue ink that reads "Latisha Thompson".

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachment

- c: Aggie Alonso, Chief Accountant-Auditor (via electronic mail only)
- Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

ATTACHMENT

**AUDITOR-CONTROLLER'S FISCAL REVIEW OF HOLY FAMILY SERVICES
ADOPTION AND FOSTER CARE AGENCY – A FOSTER FAMILY AGENCY
CONTRACT PROVIDER**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP received on 11/18/13, submitted by Holy Family Services, status of each recommendation is summarized as follows:

- 15 Recommendations (1-15) were fully addressed.
- Recommendations () were partially addressed.
- 3 Recommendations (1, 4 & 15) directed to the Department were addressed.

Recommendation Status

- 1. DCFS management work with County Counsel to amend the FFA contract to include provisions that require agencies to track donated funds used on the County-Program.**

DCFS Response: DCFS, Contracts, County Counsel, the A-C and the stakeholders will work together to agree on any new proposed contract language prior to it being finalized and incorporated by amendment into any FFA/GH contracts.

- 2. HFS management ensure that foster care funds are used for allowable expenditures.**

Agency Proposed FCAP: Since the period of time of the audit 7/1/10 – 6/30/11, HFS has terminated and replaced it's controller and laid-off the Executive Director. A new Executive Director has been in place since October 1, 2012. We have instituted new controls since the audit, and have put in place a new fund accounting system where funds are managed by fund source. In this way, funds are not mingled, and non-allowable costs are coded/paid by donor funds.

Further, since the change in senior management, there have been NO late fees, penalties, interest, or NSF charges. Our attorney now bills by the hour, and not on a retainer basis.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

3. **HFS management maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.**

Agency Proposed FCAP: This was a serious problem under the past executive management and new controls are in place. No requests for payment are authorized by the same person making the request for reimbursement; the person authorizing payment insures that documentation is in place; the bookkeeper totals up all receipts to make sure they total the request; the two individuals who sign the checks do not authorize payments and insure that the payments have back up receipts and are properly approved. Our current policy is that the check is not signed by the individual receiving the check. Two independent signers are needed.

In the past, the Executive Director pushed through her own reimbursements, and made purchases on an HFS credit card without submitting back up for these purchases. HFS no longer has a corporate credit card and all of her reimbursements are approved by the president of the board. Since new controls are in place, we have had no additional problems.

A new Executive Director was hired with a start date of October 1, 2012. She does not have check signing authority, and has been trained on proper fiscal control responsibilities.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

4. **DCFS management work with HFS to resolve the overpayments and collect any verified overpayments.**

Agency Proposed FCAP: Part of this problem was due to the fact that the former Executive Director sometimes opened mail at the agency's Post Office Box, and then went directly to the bank and deposited the checks. The bookkeeper was not informed of the deposit. She would have known that this was an overpayment, and would have booked it as such. With the new controls, and the closure of the PO Box, we now catch overpayments when they are initially made.

We have one staff member opening mail and logging any checks, then the checks are given to accounting staff to verify if it is an overpayment. *There are no longer overpayments.*

DCFS Response: The Overpayment Unit will actively work with HFS to resolve any pending overpayments and collect any valid overpayments amounts.

5. **HFS management ensure that future payment discrepancies are immediately reported to DCFS and overpayments are repaid promptly.**

Agency Proposed FCAP: Agreed. With the closure of the PO Box, new controls, the hiring of a qualified controller and increased training/responsibilities of our bookkeeper, there is no longer a problem and we do not for see any in the future.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

6. **HFS management prepare and submit to DCFS a cost allocation plan to allocate expenditures that benefit multiple programs and funding sources on an equitable basis.**

Agency Proposed FCAP: A new time sheet was designed and the HFS treasurer and Controller completed a Cost Allocation Plan that was approved by the HFS Board of Directors at their September 20, 2012 board meeting. This plan is currently in operation. *See Attached*

Further, accounting logs regarding monies received through the County Program are more clearly defined related to proper expenditures related specifically to that program.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

7. **HFS management ensure all expenditure supporting documents are referenced to check numbers, and marked "paid" to prevent duplicate payments.**

Agency Proposed FCAP: This has been completed and done by the current bookkeeping staff.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

8. **HFS management properly and consistently classify expenditures on the general ledger.**

Agency Proposed FCAP: Our new controller has prepared a new chart for classification of expenditures and monthly examines all expenditures for accuracy. The implementation of this procedure has been successful.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

9. **HFS management ensure that disbursements are verified by someone independent of the transaction, and at a higher level than the payee.**

Agency Proposed FCAP: See the attached Chart of Controls. This was implemented upon the departure of the previous Executive Director. A member of the Board of Directors signs the Executive Director's timesheets and requests for reimbursement. The Executive Director does not sign checks. No person authorized to sign checks authorizes expenditures. There is a clear set of controls in place to insure that independent reviews take place.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

10. **HFS management ensure time cards are prepared timely and are appropriately approved.**

Agency Proposed FCAP: All time cards at the agency are current. HFS has made it clear to employees through the Executive Director through emails and staff meetings, that disciplinary action will be taken if timecards are not submitted and approved in a timely manner. Accounting staff emails reminders to staff when time cards are due. Accounting staff logs in the received time cards and alerts the supervisor for appropriate approval. All staff members have supervisors assigned to review and approve their timecards. The Executive Director's time card is reviewed and approved by the President of the Board of Directors.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

11. **HFS management ensure bank reconciliations are prepared within 30 days of the bank statement date, and that the reconciliations are signed and dated by the preparer and reviewer.**

Agency Proposed FCAP: The Agency's controller reconciles the bank statement within 30-days of receipt of the bank statements. The controller checks and dates the reconciliations, which are then reviewed and signed by the Board Treasurer. The agency controller does not have any bookkeeping or cash handling responsibilities, nor does he have check signing authority.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

12. **HFS management keep a fixed asset listing that includes detailed item descriptions, serial numbers, and the source(s) of funding for each asset.**

Agency Proposed FCAP: HFS maintains a fixed asset listing, including a detailed item description, serial numbers (if applicable,) purchase price (if known,) cost for all assets, and source(s) of funding for each asset.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

13. **HFS management inventory fixed assets at least annually to ensure that they are accounted for and maintained in proper working order.**

Agency Proposed FCAP: The Executive Director will oversee the annual inventory of fixed assets to ensure that they are accounted for and maintained in proper working order. This inventory list is updated whenever a new item has been purchased or donated.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

14. **HFS management prepare and submit missing SAERs to DCFS immediately, and ensure that future SAERs are submitted to DCFS as required by the FFA Contract.**

Agency Proposed FCAP: All missing SAER's were submitted, and will be continued to be submitted in a timely basis from now on. Deadlines are known by staff and are calendared accordingly.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring Unit has received the required reports.

15. **DCFS management develop a tracking system to ensure foster care providers prepare and submit the SAERs timely, and hold agencies accountable for failing to comply.**

DCFS Response: Fiscal Monitoring Unit has staff monitoring the submission of SAERs to ensure that foster care providers are in compliance with the contract reporting requirements to submit the SAERs timely.